

**PENGANA AUSTRALIAN EQUITIES FUND**
**DESCRIPTION**

The Pengana Australian Equities Fund aims to enhance and preserve investor wealth over a 5- year period via a concentrated core portfolio of principally Australian listed securities. The Fund uses fundamental research to evaluate investments capable of generating the target return over the medium term. Essentially, we are in the business of seeking to preserve capital and make money – we are not in the business of trying to beat the market. We remain focused on acquiring and holding investments that offer predictable, sustainable and well-stewarded after-tax cash earnings yields in excess of 6% that will grow to double digit levels as a percentage of our original entry price in five years. We believe that building a well-diversified portfolio of these “gifts that keep on giving” represents a meaningful way to create and preserve financial independence for our co-investors.

**STATISTICAL DATA**
**VOLATILITY<sup>3</sup>** 11.3%

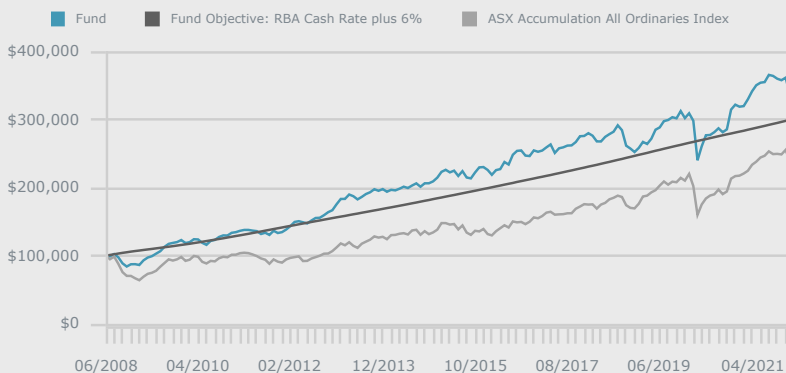
**NUMBER OF STOCKS** 32

**BETA<sup>4</sup>** 0.63

**MAXIMUM DRAW DOWN** -23.1%

**PERFORMANCE TABLE**
**NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2022<sup>1</sup>**

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.	SINCE INCEPTION P.A.
Australian Equities Fund	-6.7%	5.7%	9.3%	5.9%	9.3%	9.3%
Fund Objective: RBA Cash Rate plus 6%	0.5%	6.1%	6.5%	6.9%	7.7%	8.4%
ASX Accumulation All Ordinaries Index	-6.6%	9.7%	10.8%	9.1%	9.7%	6.6%

**PERFORMANCE CHART**
**NET PERFORMANCE SINCE INCEPTION<sup>2</sup>**

**TOP HOLDINGS (ALPHABETICALLY)**

Amcor PLC	Materials
Aristocrat Leisure	Consumer Discretionary
Credit Corp	Financials
CSL	Health Care
Evolution Mining	Materials
Mirvac Group Property Trust	Real Estate
NAB	Financials
ResMed	Health Care
Super Retail Group	Consumer Discretionary
Telstra	Communication Services

**SECTOR BREAKDOWN**

Consumer Discretionary	12%
Consumer Staples	3.5%
Financials	28.1%
Health Care	16.4%
Industrials	8.6%
Materials	12.7%
Real Estate	4.1%
Communication Services	7.1%
Utilities	2.2%
Cash	5.5%

**CAPITALISATION BREAKDOWN**

ASX 1-50	53.8%
ASX 51-100	4.3%
ASX 101-300	21.1%
All Ordinaries	5.8%
Non ASX	9.6%
Cash	5.5%

**CUSTOM SECTOR BREAKDOWN**

Defensive	50.7%
Financials	27.9%
Consumer Discretionary	7.8%
Resources	8.1%
Cash	5.5%

## PORTFOLIO WELL POSITIONED TO NAVIGATE THE ONSET OF A NEW MARKET ENVIRONMENT

### COMMENTARY

In January, the concerns that we have been expressing regarding non-transitory inflation and an inflection point in the interest rate cycle, unfortunately, came to fruition, and the subsequent share price correction was broad-based and indiscriminate.

We are confident in the positioning of the portfolio, being concentrated in high-quality, resilient businesses capable of navigating and even thriving in this anticipated difficult environment. The underlying after-tax cash yield of the portfolio is now tracking at approximately 7.5% – one of the highest levels that we have experienced, and representing strong value in our view. We have added to positions selectively during January at attractive prices and are anticipating a positive February reporting season as our companies demonstrate their resilience and underlying value with actual results – with early reporting from **Credit Corp**, **Amtcor**, **James Hardie**, and **Resmed** already providing good examples. The portfolio is in very good shape.

The Fund generated a -6.7% return in the month of January. By way of comparison, the (annual) return of the RBA cash rate + 6% equated to approximately +0.5% for the month, whilst the Australian stock market similarly declined by -6.6% over the month.

As recent readers of our monthly reports will recall, we have been discussing the risk of a pullback in the valuations for large parts of the market for some time. In particular, we have been concerned about the impact of non-transitory inflation and the inflection point in the trajectory of interest rates, from a sustained period of rate reductions to levels near zero globally (creating a tailwind to long-duration assets), to the emergence of what appears likely to be a period of interest rate rises. Unfortunately, in January, our concerns proved to be correct. Despite overall market earnings estimates actually rising slightly during the month, share prices tumbled across the board reflecting the market adjusting to a new environment as described above – higher inflation, and higher rates.

We note that the particular cohort of stocks whose valuations had escalated the most – the Industrials ex Financials – saw a substantial de-rating over the month, and after peaking at almost 31x forward earnings as recently as October, finished January at 26x forward earnings – still at levels well above historical averages. The largest detractors amongst this group were the ‘growth’ companies (often tech-related) whose valuations are based primarily on future earnings (often loss-making today). We have long struggled with how investors assess valuation support amongst that cohort, and we find that the lack of clarity on that point exacerbates the declines in markets such as these – the old trader’s term “catching falling knives” comes immediately to mind...

Given the elevated levels of volatility, lower seasonal trading volumes, and the short-term nature of the period in question, the January sell-off was unfortunately not limited to the stocks above. The indiscriminate nature of the correction, combined with the large index re-weighting of BHP in the month meant that core positions for the Fund such as **Telstra**, **CSL**, **NAB**, **Aristocrat**, **Mirvac**, etc were also caught up in the general search for liquidity. Put options held by the fund expired mid-January, at a point in time where prices to renew had substantially escalated, leaving us without the protection we had held for some time. We would also observe that we entered the month with a lower level of cash than we typically have held leading into previous market corrections – evidence of our ‘bottom up’ management of cash holdings.

Despite the indiscriminate nature of the January correction, we are confident in the positioning of the portfolio, being concentrated in high-quality, resilient businesses capable of navigating and even thriving in the anticipated difficult environment.

Despite an elevated level of short-term noise, we remain as focused as ever on our primary objectives of capital preservation and generating a reasonable real return for our investors. We continue to believe this is best served by a disciplined approach and consistent investment methodology. A variety of good businesses run by honest and competent management teams at the right price will create a well-diversified portfolio of ever-growing cash earnings streams.

## FEATURES

APIR CODE	PCL0005AU
REDEMPTION PRICE	A\$ 1.8686
FEES *	Management Fee: 1.025% Performance Fee: 10.25%
MINIMUM INITIAL INVESTMENT	A\$10,000
FUM AT MONTH END	A\$ 877.6m
STRATEGY INCEPTION DATE	1 July 2008
BENCHMARK	The RBA Cash Rate Target plus Australian equity risk premium.

## FUND MANAGERS



**Rhett Kessler**  
CIO and Senior Fund Manager



**Anton du Preez**  
Deputy CIO and Fund Manager

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. No allowance has been made for buy/sell spreads. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.

2. Inception 1st July 2008.

3. Annualised standard deviation since inception.

4. Relative to ASX All Ordinaries Index. Using daily returns.

\*(including GST, net of RITC) of the increase in net asset value subject to the RBA Cash Rate & High Water Mark. For further information regarding fees please see the PDS available on our website.

## PENGANA AUSTRALIAN EQUITIES FUND

### PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

### CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: [clientservice@pengana.com](mailto:clientservice@pengana.com)



### PENGANA.COM

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Australian Equities Fund (ARSN 146 346 929) (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.